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ECONOMIC COMMITTEE

ECONOMIC REVIEW OF EASTERN EUROPEAN COUNTRIES - HUNGARY: ECONOMIC SITUATION IN 1977 AND PROSPECTS

Note by the Chairman

The attached report is based on official Hungarian statistics and contributions submitted by the British, German, American and other delegations.

2. It is divided into two sections: (a) 1977 economic results; (b) the 1978 Plan and direction of overall objectives to 1980.

(Signed) J. BILLY

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THE HUNGARIAN ECONOMY

Note by the Economic Directorate

PART I

THE 1977 RESULTS

SUMMARY

1. Figures released in the 1977 report of the Central Statistics Office indicate that overall Hungarian economic performance in the second year of the 1976-1980 Five-Year Plan was a success compared to the poor 1976 performance. National income rose almost 8% over 1976, exceeding the Plan target of 6.5%. Industrial output increased 6.8% (Plan: 6%, 1976: 4.8%); a good showing was registered in the 4.5% increase in per capita real income. Agricultural output recovered nicely over the poor 1976 results of a 3% decline as output was the second highest on record. An otherwise bright picture was marred by excessive investment spending and a stubborn hard currency balance of payments deficit.

GENERAL OUTLINES

(i) Investments

2. Investment spending reached 181.5 billion forints. The report notes that this is 10% above the planned target, and marks a 13% increase in volume and a 19% increase in current prices over 1976. This growth is regarded as excessive since many investment projects are already under way, with frequent delays in completion and rising costs. The planners warned that an increase of investments on such a scale was disproportionate to current potential economic growth.

(ii) Industry

3. Industrial production expanded over 1976 by 6.8-7% (Plan: 6%; 1976: 4.8%) with labour productivity making a good gain of 7-7.2% and accounting for almost all of the increase in national production, helped by a 15% increase in exported products. The food products sector registered a satisfactory 9.7% rise, with total non-food industry production growing at the planned rate of 6.1%. Other sectoral growth rates included engineering 7.5%; chemicals 6.9%; building material 6.1%; mining, metallurgy and light industry at about 4%. Industrial specialization and technical quality continued to increase, but, as the report noted, "not fast enough to permit a large-scale increase of the manufacture of competitive products that can be sold profitably".

The industrial labour force was 1,688,400 - a 0.2% decrease from 1976. Labour productivity rose 7-7.2%. Hungarian industry also acquired more foreign licences, enabling it either to introduce new products or to modernize existing processes. This Hungarian policy to purchase foreign licences will continue as industry gears itself more and more towards increasing its export trade share.

4. In the energy sector, the oil and gas industry rose less spectacularly than in 1976; prospects are that this production will rise slowly through 1980. Hungarian crude production remained at the 1976 total of 2.2 million tonnes and gas output rose 8.5% to 6.6 billion m^3. Domestic supply as a percentage of total energy requirements is falling, necessitating imports of about 8 million tonnes of Soviet oil (at ruble prices 20% higher than in 1976) and gas. Electricity production rose 6.1% (to 23.4 billion kWh) which represented about 80% of the supply required, and the remainder was imported via the CMEA grid from the USSR.

(iii) Agriculture

5. Agricultural output was up by 10-11% compared to 1976 and was the second highest on record. The increase was led by state farms and co-operatives (12%), with a 7-8% growth in output from household plots and auxiliary farms. Wheat production was 5.3 million tonnes, with maise production at 6 million tonnes. Output of animal products was up sharply: slaughter animals up 10%, milk production up 11%, and egg and wool production up nearly 20%. Employment in socialist agriculture dropped by 20,000 from 1976 to 773,000 people. Fertilizer use increased to an average of 220 kgs per hectare of cultivated land, about average for the CMEA countries.

(iv) Living Standards and the Consumer

6. Workers' per capita real income went up by 3-3.5% with nominal wages rising by 8% over 1976. Money receipts deriving from agriculture, primarily from household and auxiliary plots, especially vegetables and pork, rose rapidly (14.9%) and exceeded the Plan.

(v) Foreign Trade

7. In 1977 Hungary's trade turnover totalled 500 billion forints, CMEA trade turnover increased 13-14% in volume, whilst trade with advanced capitalist countries rose about 16%. The principal foreign trade developments were: (1) a revaluation of the forint against the transferable ruble (rate for 1 TR goes from 32.5 to 35 forints)

in order to make Russian imports (especially energy) cheaper, and (2) the efforts of Hungary to penetrate the US market by opening a banking office in New York and having trade officials extensively tour the country promoting Hungarian goods.

8. During the year Hungary managed to reduce its ruble deficits for the second year running. Although trade value rose by 15% (Plan: 17-18%), the volume exceeded the planned 12% by 3-4%. The USSR remained Hungary's best customer, with trade turnover reaching 4 billion rubles (Plan: 3.7 billion rubles) including trade quoted in dollars worth $330 million. Two thirds of Hungarian imports consisted of raw materials and energy, while 50% of Hungarian exports were plant and machinery with semi-manufactured goods taking 35%(1).

9. In the light of discussions at the recent 84th CMEA Executive Committee Meeting the effect of transport difficulties upon Hungarian trade with CMEA were discussed. Serious problems were caused in 1977 by these difficulties, especially the small capacity of the border stations, the out-of-date rolling stock, ill-suited to the structure of goods, and the shortage of wagons.

10. Meanwhile, trade with the developing countries increased, at well above the average rate. Exports (mainly complete factories, hospitals or schools, and in the main to Asian countries) increased by 30%; imports (chiefly agricultural and light industrial consumer goods, particularly from Latin American countries) went up by 50%. The total turnover was worth over $1,000 million. This attention to developing countries is part of Hungary's conscious effort to diversify her trade partners and not rely so heavily upon Western European trading partners.

11. Hungary's growing attraction to third world trade is not unconnected with the fact that it failed to reduce its trade deficit with developed non-COMECON countries. As in 1976, it suffered adverse terms of trade of about 6% and was unable to improve its position as imports and exports both increased by 10%, far below the Plan target of 17-18% for exports, and 8% for imports(2). In addition, the value of exports, raw materials in particular, rose only by 3.8%, whereas average import prices increased 8.2%. Expensive imports included: coffee, cocoa, raw materials, protein feeds, petroleum, steel tubing. On the other hand, prices for staple Hungarian exports, wheat corn, rolled steel and machine tools, stagnated or fell. Some sectors did well: enterprises under the control of the Ministry of Heavy Industry (mining, power generation, chemicals, aluminium) overfulfilled their foreign trade Plan with exports worth 381 million rubles to

(1) A. Federer, "Hungarian-Soviet Economic Ties", Foreign Trade (Moscow) 10 (1977), p.18. Hungary provides 60% of Soviet apple imports, 50% canned vegetables, 30% medicines, 10% plant machinery, and 15% cotton fabrics.

(2) Interview with C. Csikos-Nagy, Chairman of Price Control Office, Vilaggazdasag, 3rd January, 1978, translated in JPRS, No. 70657, p. 137, dated 21st February, 1978.

COMECON and $477 million to hard currency countries. Hungary has recently taken a keen interest in efforts to reform the procedures of CMEA international trade accounting clearances. Until now, the transferable ruble unit has permitted only a bilateral settling of accounts of liabilities and claims deriving from trade. The Hungarian National Bank is presently pressing the Soviet government to make the transferable ruble "transferable" on a multilateral basis. The Soviets on the other hand stress the need for a "CMEA planned expansion of the supply of goods and financial settlements" centrally located in Moscow. If, in this crucial debate of opposing overall centralization, Hungary, and to some extent Poland, continue to speak out a certain cooling of relations between Hungary and the Soviet Union may result.

PART II

THE 1978 PLAN AND DIRECTION OF OVERALL 1978-1980 OBJECTIVES

SUMMARY

12. The Hungarian authorities call for 1978 to be a year in which more pressure will be put on enterprises to increase efficiency and quality and to be more selective in new development plans. Growth is planned to slow down in 1978 as the government tries to cut back on imports and "uneconomical production". National income growth, which reached almost 8% in 1977, is scheduled to fall to about 5% (1976-1980 Plan: 5.4-5.7%), industrial production to go up 5-5.6%, agricultural production 2-3%, and domestic consumption by about 3.5%. Capital investments will rise 9.8% and will be largely concentrated on projects with an export potential. Overall, the 1978 Plan for a growth slow-down seems realistic in the light of an uncertain hard currency export market and rising import prices.

GENERAL OUTLINE

(i) Investment

13. Hungarian planners are reluctant to overstimulate the economy and seem to by shying away from continuing the growth spurt of 1977. As a result, the planned investment increase of 4-5% in 1978 allocates the biggest slice to construction and service installation activity which will serve to stimulate labour productivity. Total investments are forecast at 180-182 billion forints, about the same as in 1977(1). Work on only two major projects will definitely be started during the year at the Szekéféhérvar light metal works and the Lenin steelworks, while ten large investments "must be completed"(1). These include the gas/oil refineries at Szégéd, knit goods factories and several food processing plants.

(ii) Agriculture

14. Assuming "average" weather, output in 1978 is expected to rise by about 2-3% over the 1977 levels. As a result of the acceptable 1977 harvest continued emphasis is placed on private vegetable, fruit, and livestock production. Planners wish to give particular stress to hog raising operations, increased planting rate of grape and fruit trees and processing machinery in order to build up further export potential. In addition, more use of fertilizers and importation of Western farm machinery are all expected to contribute to increase acreage yields.

(1) "Nemeth comments", p. 75

(iii) Industry

15. Industrial output is forecast to rise 5-5.6%. Considerable emphasis is to be placed on increasing the export ratio of total output in the processing sectors - primarily in the machinery, food and chemical industries - in an effort to increase production of exportable goods. In the engineering sector, aluminium, the machine, light chemical and food industries are aiming particularly at boosting exports at a yearly increase by at least 10%.

16. Producer prices are scheduled to rise in 1978. Water and sewerage charges, vehicle repairs and "certain technological assembly works" will go up from 7-16%. Price regulations will permit some of these increases to be passed forward in product prices, and the rest will have to be absorbed through government subsidies. Metallurgical products will go up by 21-22% including an increase in the price of steel and pig iron of 30-44% and semi-processed steel products of 13-25%, and electrical energy prices will rise 15%.

17. In the energy sector, Hungarian domestic demand is rising quickly (6-7% a year). As domestic production is able to meet only about one-third of this demand, Hungary has to rely extensively upon imports. In 1978, domestic crude oil output is to be slightly above 2.2 million tonnes, with imports mainly from the USSR, to be on about the same level as in 1977. In this regard Hungary appears to have protested to the recent Soviet 20% price increase of her crude oil products (from 49.2 to 59 rubles). In a dramatic turn, Hungary has unilaterally raised the value of its currency by almost 10% against the transferable ruble in which payments to the USSR are calculated(1). Gas production is to increase to about 6.8-7 billion m^3 (1977: 6.5 billion m^3) to take some pressure slightly off oil imports and allow expansion of ammonia, chemical, and fertilizer plants(2). Nevertheless, as has been Poland's problem in recent years, total supply will barely keep up with demand and many parts of the country will continue to receive only limited supplies of electricity. As a result, Hungary is to intensify the pace of exploration for oil and gas in the country east of the Danube. Although oil production extraction costs have risen, domestic production is still cheaper than imports, and the government has stated that every effort is being made to increase total yields(3).

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(1) Petroleum Economist, February 1978, p.47
(2) Article by P. Tromboczky, Magyar Hirlap, 31st January, 1978, p.7. As an example the nitrogen factory at Pet uses 1 million m^3 a day of gas in its new ammonia plant - or 5% of total Hungarian output.
(3) Ibid

(iv) Living Standards

18. In an effort to hold down excessive purchasing power, nominal incomes are set to increase less than in 1977 or 7-7.4%. Overall domestic consumption is to he held down to 2%. Hungary, like much of Eastern Europe, seems to be continuing its effort to raise consumer living standards. Housing construction is to increase, as will services and retail trade turnover. Expenditures of health care, social and cultural services will increase by about 12% because of food wage adjustments(1).

(v) Foreign Trade

19. Hungary's main task in foreign trade is to "moderate noticeably" the deficit of the non-ruble trade accounts. Imports from non-ruble accounting countries are forecast to rise at a rate which must be held below export increase of at least 12-13%. This is by no means assured because much will depend on Western recovery. Nevertheless, Hungary has made determined efforts to open up new markets, especially in the USA; recent Hungarian trade agreements providing for reciprocal non-discriminatory tariff (MFN) treatment plus many business facilitation measures reflect Hungary's more aggressive effort to market her exports and strike against the barriers of Western recession. Hungary has also recently organized the first East European holding company in a Western country. The firm, established in Luxembourg, is to assume equity participation in small-to-medium size high technology Western companies that are experiencing liquidity difficulties, but which show good prospects for profitability(2).

20. Trade turnover in 1978 with the other COMECON countries is forecast to grow at about the same rate as in 1977. Exports are forecast to rise 15%, with imports up 7%(3). Emphasis will be on diversification of markets, substitution of expensive capitalist imports with socialist imports and increase of exports to non-ruble markets. The biggest partner is scheduled to be the USSR with bilateral agreements in 1978 worth more than four million rubles. More than 50% of Hungary's exports to the USSR consist of machinery, buses and auto parts. Important Hungarian imports are mainly raw materials, crude oil, gas, coke, tractors and combines. At the same time co-production and specialization

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(1) Provisions of 1978 Budget Bill Detailed, Magyar Kozlony No.98, 27th December, 1977. (Translated in JPRS No. 70684, 24th February, 1978, p. 54).
(2) "Nemeth comments...", p. 73
(3) Eastwest Markets, 20th March, 1978

arrangements, encompassed by ten bilateral and nine multilateral specialization contracts, with other COMECON countries have also helped Hungary to build up her manufacturing capacity of communications, data processing equipment, as well as pharmaceutical production.

GENERAL OUTLOOK

21. Aware that foreign trade is perhaps the most crucial aspect of her economy, Hungary is making some determined effort to increase its export trade and thereby reduce its balance of payments deficit. Hungary is not only sending trade teams abroad and signing trade treaties (the most recent of which gave her MFN status with the US, subject to congressional ratification), but also encouraging factory managers to stress the need to devote more money to market research in selling goods to Western countries. Hungary will probably have some success in this aim with the result that Western countries (as laid down by the EEC) will come under increasing pressure to lift quota restrictions on Hungarian products. The impact upon domestic Western industries of these imports, whose prices are determined by the state, is bound to be adverse.

22. The Hungarian economy will continue to suffer from a number of constraints: labour supply is very tight; domestic energy supply's share of total energy consumption is decreasing, and the large Hungarian balance of payments deficit. The government is making considerable efforts to overcome the worst aspects of these constraints, but until Hungarian industry is fully modernized and competitive by world standards, in both labour productivity and quality of goods, Hungarian national income will slow down considerably in the 1978-1980 Plan period.

23. Hungarian agriculture is doing quite well, and assuming the government continues the policy of modernization, training of farmers and support of the private plot, should continue to out-perform its CMEA neighbours and meet its 1976-1980 target 3.2 annual increase. Indeed, Hungary's quite acceptable agricultural performance stands out amongst the lacklustre East European results in general over the last two years.

TABLE I

1977 Results

	Plan	1977 Actual
	(In terms of 1976 percentage)	
National Income	106-106.5	107.5-108
Industry	106	106.8-107
Building	105-106	106
Agriculture (in terms of 1975 percentage)	107-108	107-107.5
Average nominal income per person	107.5-108	108.5
Consumer price index	103.8-104	103.9
Per capital real income	103.5-104	104.5
Real wages per earner	102.5-103	103.5
Investments in the socialist sector (at current prices) in terms of 1,000 million forints	164	181.5
Flat building (in 1,000 pieces)	88	93

TABLE II

Hungarian Foreign Trade 1977 -
Total turnover 500,000 million forints

Item		% increase
CMEA turnover		16-17 (value)
		13-14 (volume)
CMEA imports		10.5
exports		19
Soviet Union imports		15
exports		16
Advanced capitalist countries		
	imports	20.7
	exports	12.2
EEC	imports	23.2
	exports	15.7
European, non-EEC capitalist countries	imports	18.2
	exports	7.1
Non-European developed capitalist countries	imports	8.6
	exports	5.5

	Total share of Hungarian imports	Total share of Hungarian exports
Developed capitalist countries	39.8	29.3
Developing countries	7.1	8.9

CMEA trade turnover	% volume increase
Poland	28.5
Bulgaria	21
Romania	14
GDR	13
Czechoslovakia	10

TABLE III

VILLAGGAZDASAG, 1st March, 1978

Hungarian foreign trade in 1977/by countries/million forints

Group of countries	Import	Export
Europe, total of which:	225,162.4	213,920.5
European CMEA countries	136,805.8	144,752.2
of which:		
Bulgaria	3,229.2	2,835.0
Czechoslovakia	14,747.7	17,365.6
Yugoslavia	4,860.6	10,734.6
Poland	11,315.7	11,616.0
GDR	21,642.8	22,354.0
Romania	6,998.9	7,140.0
Soviet Union	73,567.6	72,530.7
Common Market countries	58,937.5	43,926.3
of which:		
France	6,220.5	4,097.1
FRG	29,199.5	21,877.4
Italy	8,873.5	9,713.7
Other European countries	29,419.1	25,242.0
of which:		
Austria	12,587.1	8,675.7
Finland	1,795.5	1,284.4
Asia, total	12,741.8	16,224.4
of which:		
Iraq	2,797.1	3,305.8
India	1,269.9	1,062.1
Iran	1,182.6	2,665.1
Mongolia	122.4	191.6
China	1,570.7	1,319.9
Korean People's Republic	182.9	358.2
Vietnam	197.7	650.3
Japan	2,836.9	393.9
African countries	4,488.7	7,236.4
American, total	20,333.4	6,188.5
of which:		
US	5,565.8	2.304.0
Brazil	8,058.4	327.1
Cuba	1,123.4	1,194.6
Australia and Oceania	1,186.4	246.8
Total:	263,912.7	243,816.6
Value calculated on a cif basis	267,308.8	238,590.5

TABLE IV

Goals for 1978 are specified as follows:

	1978 estimates of increases (%)
National Income	5%
Internal use of national income	2%
Industrial production	5.5-6%
National construction-assembly performance	4-5%
Production of agricultural produce	2-3%
Total investments of socialist sector	Fts 180-182 milliards
(Nominal) per capita average income	7-7.4%
National average of nominal wages per earner	7%
Consumers' price level	4%
Per capita real income	3-3.2%
Real wages per worker and employee	2.8-3%
Real income per one co-operative farm worker	2.8-3%
Consumption of the population	3.4-3.6%
Total building of dwellings	90,000 dwellings
Of these, built by the state	33,000 dwellings
State budget revenues minimum	6%
State budget expenditure maximum	7%